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The Home Buyers' Plan

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PREFACE

In the February 1992 budget, the federal government announced that it will introduce legislation to establish a Home Buyers' Plan.

The information in this booklet is based on the draft legislation released with the budget. While the booklet provides information on how to make use of the plan, it is not intended as a complete description of all the provisions involved. On specific issues, you should refer to the text of the proposed legislation.

If you would like a copy of the draft legislation, please write to the Distribution Centre, Department of Finance, Ottawa, K1A 0G5, call the Centre at (613) 995-2855 or Fax 996-0518.

You can also receive answers to questions or concerns by contacting your local office of Revenue Canada.

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OVERVIEW: HOW THE PLAN WORKS

The proposed Home Buyers' Plan will allow Canadians to use funds from their registered retirement savings plans (RRSPs) to assist them in purchasing a home. It may also be used to finance a home that you build yourself.

- To take advantage of the plan, you must enter into an agreement to buy or build a qualifying home and then withdraw funds from your RRSP by March 1, 1993. You will have until September 30, 1993 to complete the agreement.
- If you are buying or building a qualifying home, you may withdraw up to \$20,000 from your RRSP to use as a down payment. You will not have to pay income tax on these funds as long as they are repaid to an RRSP in the future.
- You will have scheduled annual repayments of equal amounts over a 15-year period. If you withdraw \$13,500 to buy a house, for example, your first scheduled annual repayment will be \$900 (\$13,500 divided by 15 years). Your first repayment is due by December 31, 1994. Revenue Canada will issue an annual statement to help you keep track of how much you owe your RRSP.
- If you do not make the scheduled annual repayment in any year – or if you decide to repay only part of it – the unpaid portion must be declared as income when you file your tax return.
- You may also choose to repay more than the scheduled amount in any year. This would reduce the repayments you have to make in subsequent years by a proportionate amount.
- As the purpose of the plan is to provide access to **existing** RRSP funds, no deduction will be allowed for new contributions made to RRSPs by a plan participant before March 2, 1993 (except contributions deducted for 1991).
- Two important points to remember:
 - Repayments to your RRSP under the plan are not tax deductible. You already claimed your deduction when the money was originally put in your RRSP.
 - Plan repayments and future RRSP contributions do not affect each other: they are separate transactions. You can decide how much to contribute to your RRSP and how much to repay.

The following sections in this booklet provide specific details on matters such as what a qualifying home is, how to apply, and the different repayment options.

A QUALIFYING HOME

To make use of the plan, you must have entered into an agreement to purchase or construct a home that:

- is located in Canada;
- was not previously owned by you or your spouse;
- will be acquired by September 30, 1993; and
- is intended to be occupied as your principal place of residence no later than one year after its acquisition.

Both existing and newly built homes are eligible. They may include: a detached house; a semi-detached house; a townhouse; a condominium; a mobile home; or an apartment in a duplex, triplex, fourplex, or apartment building. A share in a co-operative housing corporation also qualifies.

APPLYING FOR YOUR RRSP WITHDRAWAL

- To participate in the plan, you simply complete a Home Buyers' Plan – Withdrawal Application (form T1036) available from your Revenue Canada district office.
- On the form, you must certify that you are buying a qualifying home.
- You then give the form to your RRSP issuer (the bank, credit union, life insurance company, trust company or brokerage firm that manages your RRSP).
- The completed form allows the RRSP issuer to let you withdraw funds from your RRSP without any withholding tax. How long it takes to receive your money likely will depend on the time needed by the RRSP issuer to convert your RRSP holdings into cash. Be sure to consult with your RRSP issuer well in advance of any purchase deadline.

- You can make more than one RRSP withdrawal under the plan, as long as they do not total more than the \$20,000 limit.
 - You do not have to include a copy of the application form with your income tax return. Your plan issuer will forward the information to Revenue Canada, Taxation.
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MAKING REPAYMENTS UNDER THE PLAN

- Your RRSP repayments have to be made on or before December 31 of each year. The repayment period begins in 1994.
- In general, you do not have to make your repayments to the same RRSP from which you withdrew the funds. The only time you have to repay your original RRSP issuer is when you cancel your withdrawal because you are not going through with the purchase or construction of your home.
- When you make a repayment under the plan, you will have to let the RRSP issuer know that this is not a regular, tax-deductible RRSP contribution. To do this, you must complete a Home Buyer's Plan – RRSP Repayment (form T1037) and give it to your RRSP issuer with your repayment. This form is available from your Revenue Canada district office.
- The RRSP issuer to whom you make your RRSP repayment will report to Revenue Canada the amount you repay. You should not file a copy of your repayment form (T1037) or receipt with your income tax return.
- Under the Home Buyers' Plan, you may repay your RRSP in 15 equal yearly instalments. However, you may also choose to pay more or less than these scheduled amounts depending on your financial situation and savings goals. The following examples illustrate how these options work.

Option to repay *less* than your scheduled annual repayment

- In any year, you may choose to repay less than your scheduled annual repayment. If you do this, the amount that you do not repay must be reported as income on your tax return for that year.

Example

In June 1992, you withdraw \$15,000 from your RRSP to finance the purchase of your home.

Your annual repayment for 1994 is \$1,000 (\$15,000 divided by 15 years) and is due by December 31, 1994.

If you decide to repay only \$700 to your RRSP in 1994:

- the \$300 shortfall from your scheduled annual repayment of \$1,000 will be included in your income for 1994;
- your outstanding balance will still be reduced by \$1,000 from \$15,000 to \$14,000; and
- your scheduled annual repayment for 1995 will again be \$1,000 (\$14,000 divided by 14 years).

Option to repay *more* than your scheduled annual repayment

- In any year, you may also choose to repay more than your scheduled annual repayment. This would reduce your outstanding balance and result in lower annual repayments in subsequent years.

Example

After four years of payments, your outstanding balance is \$11,000. If in the fifth year you decide to repay \$3,000 to your RRSP instead of your scheduled annual repayment of \$1,000:

- your outstanding balance will be reduced to \$8,000 (instead of \$10,000); and
- your scheduled annual repayment for the following year will be reduced to \$800 (\$8,000 divided by ten years).

Repayment statements

- Beginning in 1993, Revenue Canada will issue an annual "repayment statement" to help you keep track of your participation in the Home Buyers' Plan. This statement will provide you with:
 - the amount you have left to repay your RRSP;
 - notice of your scheduled annual repayment; and
 - a summary of the repayments you have made up to that point.
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DEDUCTIBILITY OF NEW RRSP CONTRIBUTIONS

In order to stimulate activity in the housing market during this period of economic recovery, the purpose of the Home Buyers' Plan is to allow people to use their **existing** RRSP savings to buy or build a home.

Accordingly, no deduction will be provided for RRSP contributions made by plan participants after February 25, 1992 and before March 2, 1993. (However, this rule does not apply to contributions made on or before February 29, 1992 that are deducted in computing income for 1991.)

While plan participants will not be able to make deductible RRSP contributions before March 2, 1993, they will not lose their RRSP room. It will be carried forward for use in future years.

Where an individual has made an RRSP contribution after February 25, 1992 and before March 2, 1993 and later wishes to make an RRSP withdrawal under the Home Buyers' Plan, the contribution may be withdrawn without any tax consequences. Also, the contribution will not be counted against the taxpayer's RRSP limit available for carry-forward to future years.

QUESTIONS AND ANSWERS

Q: I have RRSPs with different banks, trust companies, and brokerage firms. May I make more than one withdrawal?

A: Yes, as long as the total amount of the withdrawals does not exceed \$20,000.

Q: What is the withdrawal limit for couples?

A: The limit is \$20,000 **per eligible person**. Where both spouses are eligible, each can withdraw up to \$20,000 for a down payment.

Q: What happens when amounts are withdrawn from a spousal RRSP?

A: If you contribute to a spousal RRSP, any withdrawal by your spouse to buy or build a qualifying home will not be attributed to you. Amounts not repaid to the RRSP should be included in your spouse's income when filing his or her tax return.

Q: I withdrew money from my RRSP before budget day to buy a home. Is this amount eligible for special treatment under the Home Buyers' Plan?

A: Amounts withdrawn from an RRSP before February 26, 1992 to purchase a home do not qualify under the plan. Any such amounts must be included in income for tax purposes.

Q: I signed an agreement to purchase a home before the plan was announced. Am I still eligible to make an RRSP withdrawal?

A: Yes. As long as you make your RRSP withdrawal under the plan before you **complete** the purchase or construction of your home, you may participate.

Q: I have my RRSP funds in fixed-term Guaranteed Investment Certificates (GICs). Will the program guarantee me quick access to these funds for my home purchase?

A: No. The plan does not require financial institutions to redeem fixed-term investments before the maturity date set out when you made the investment. You should check with your RRSP issuer to see what conditions would apply if you wanted an early release of GIC or other term deposits.

Q: Do my annual repayments have to be made to the same issuer?

A: No – generally you may make repayments to any RRSP you hold. The only time you must make a repayment to the same issuer is when you cancel your participation.

Q: Do I have to make the maximum contribution to my RRSP before I make my annual RRSP repayment?

A: No. Your RRSP contribution limits and your RRSP repayment do not affect each other. It is up to you to decide how much to contribute to your RRSP and how much to repay.

Q: What happens if my home purchase does not close?

A: If the agreement to purchase or construct the home has not closed by September 30, 1993, you may cancel your participation in the plan.

- To cancel your participation, complete the appropriate section on a copy of your Withdrawal Application Form and give it to your RRSP issuer.
- If you cancel, any funds returned to your RRSP by December 31, 1993 will not be included in your income for 1992 or 1993. However, if you do not return the full amount to your RRSP by the end of 1993, the balance not returned must be reported as income in the year of the withdrawal.

Q: Contributions to an RRSP are not permitted after the year in which I turn 71. What effect would this have on my participation in the plan?

A: After the year in which you turn 71, you also will not be allowed to make further plan repayments. Instead, you must include the remaining scheduled annual repayments in your income each year as they come due. However, you do have the alternative of completely repaying your outstanding amounts by the end of the year in which you turn 71.

Q: What happens if a plan participant dies?

A: When a person participating in the plan dies, a surviving spouse resident in Canada may elect to repay the participant's outstanding balance over a set time. In any other case, the outstanding balance under the plan will be included in the deceased person's income in the year of death.

Q: What happens if I cease to be a resident of Canada after acquiring my home under the plan?

A: You may repay the full amount outstanding to your RRSP within 90 days of becoming a non-resident. As well, the repayment should be made before you file your income tax return for the year that you became a non-resident. Any balance which is not repaid to your RRSP must be declared as income for that year.

Q: What happens if I make a regular RRSP contribution in 1992 or 1993 and also make an RRSP withdrawal under the Home Buyers' Plan?

A: Unless the contribution is made on or before February 29, 1992 and is deducted in computing your income for 1991, a contribution made after February 25, 1992 and before March 2, 1993 will not be deductible. The purpose of this rule is to limit withdrawals under the plan to funds that are already in RRSPs and so ensure that the plan is effective in increasing the funds available for home purposes. Contributions made before February 26, 1992 or after March 1, 1993 are unaffected.

Q: What can I do if I have made an RRSP contribution for 1992 and later decide that I want to withdraw RRSP funds to buy a home under the plan?

A: You will be permitted to withdraw the contribution. You will not get a deduction for the contribution or pay tax on the withdrawal, and the contribution will not reduce your RRSP limit that you will carry forward to subsequent years.

INFORMATION FOR RRSP ISSUERS

- Do not withhold deductions at source for RRSP withdrawals under the Home Buyers' Plan provided that a completed application form (T1036) has been received. A T4RSP should not be completed for these transactions.
- Copies of Form T1036 (Withdrawal Application) and Form T1037 (RRSP Repayment) are to be filed with Revenue Canada no later than 15 days after each quarter.

